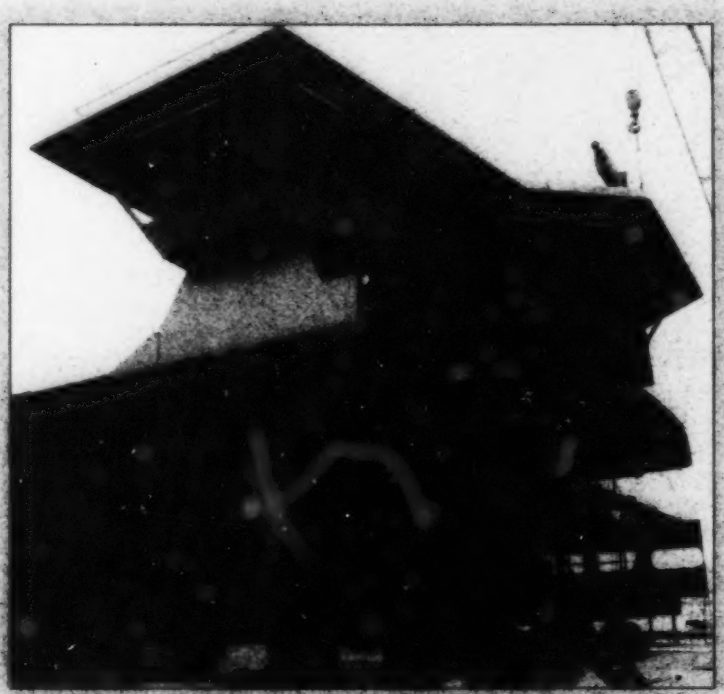
BRITISH COLUMBIA FERRY CORPORATION

Annual Report
1991-1992



BUILDING FOR THE FUTURE

The Minister's Message

Honourable Glen Clark
Minister of Finance and
Corporate Relations

Minister Responsible for
British Columbia Ferry
Corporation

The Honourable
DAVID C. LAM
Lieutenant-Governor
of the Province of British Columbia

MAY IT PLEASE YOUR HONOUR
I respectfully submit herewith the Annual Report of the British Columbia Ferry Corporation for the fiscal year ended March 31, 1992, in compliance with the provisions of the Ferry Corporation Act.

Glen Clark
Minister of Finance and Corporate Relations
Minister Responsible, British Columbia Ferry Corporation

92-07924/

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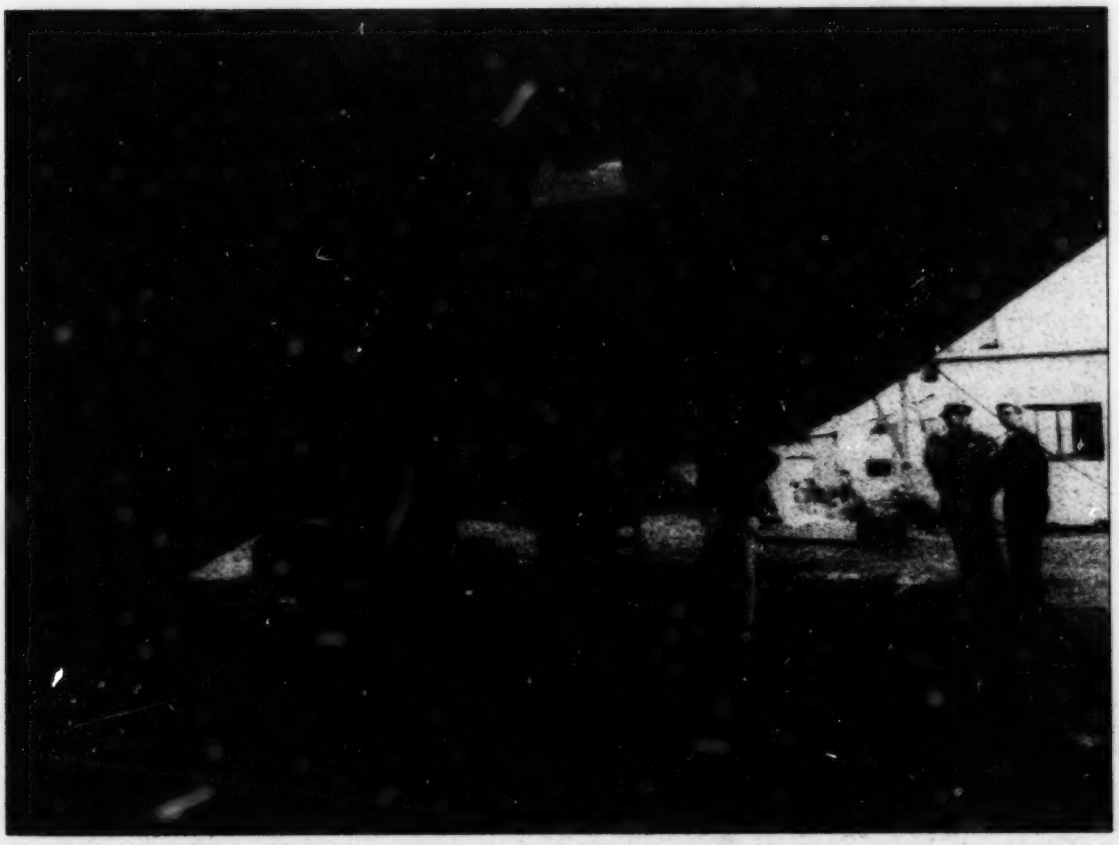
Corporate Profile

British Columbia Ferry Corporation, a Government of British Columbia Crown Corporation, was established on January 1, 1977. It operates the Ferry System which has existed since 1960 when the Provincial Government opened frequent ferry service between the Lower Mainland and Vancouver Island using end-loading roll-on/roll-off vessels.

The Corporation now operates the Ferry System with a fleet of 40 vessels on 24 routes serving 43 terminals. During 1991-92 the Ferry System carried 20.5 million passengers and 8.0 million vehicles.

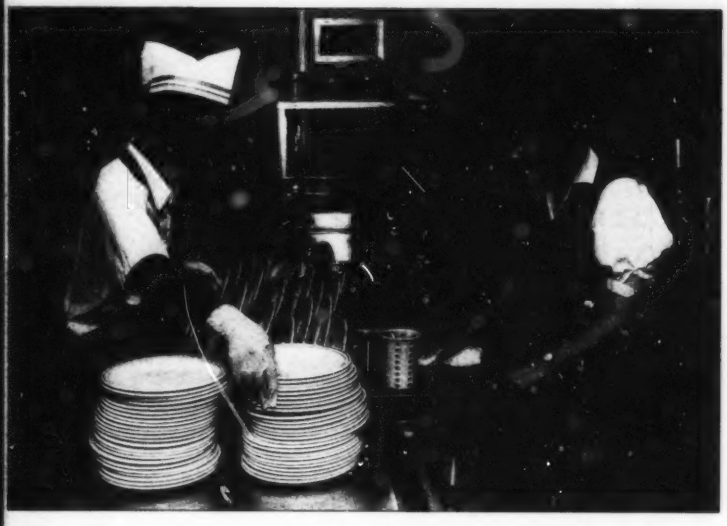
The Ferry System is an integral part of British Columbia's coastal transportation system. It links many small islands of the Strait of Georgia to either Vancouver Island or the Mainland, and links Vancouver Island to the Lower Mainland with three routes. It also operates services from Prince Rupert, on the Province's north coast, to the Queen Charlotte Islands and to northern Vancouver Island. High standards of operation and maintenance make British Columbia's Ferry System one of the world's finest.

British Columbia Ferry Corporation is wholly owned by the Province and its shares are not traded. It has no subsidiaries. It is established pursuant to a special Act of the Provincial Legislature, The Ferry Corporation Act. The Province's Minister of Finance acts as the Corporation's Fiscal Agent. The fiscal year end is March 31. The Corporation operates the Ferry System under the marine regulations of Transport Canada as enforced by Canadian Coast Guard.



Working on the hull of the S-class ferry

Corporate Mandate



In the galley aboard Queen of Saanich

The mandate of the Corporation is defined in the Ferry Corporation Act which took effect on January 1, 1977. The objects and powers of the Corporation are defined in Section 6 of that Act which is reproduced in its entirety below:

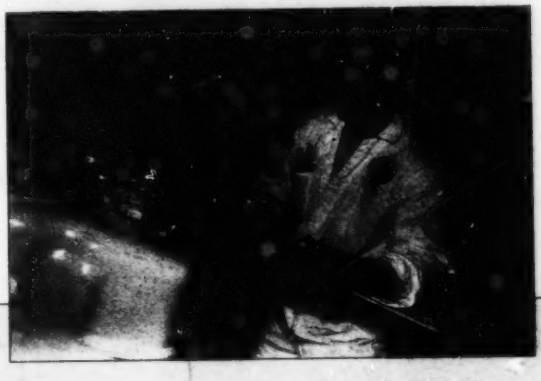
The objects of the Corporation are, and it has the power and capacity:

- to establish, operate, administer and maintain a ferry, shipping and related service, including, subject to section 7(1), the ferry system, and to engage in any other business or undertaking necessary or incidental to the operation of a ferry, shipping or related service;
- to acquire by any means except expropriation, to charter, to hold in its own name, and to use and operate ferries and terminals and such other property and assets, both real and personal, as are considered by the corporation to be necessary or required for the conduct of its operations, and to use and operate the ferries, terminals and other property and assets acquired for ferry, shipping and related purposes;
- subject to the approval of the Lieutenant Governor in Council, to lease, charter, mortgage, sell or otherwise dispose of ferries and terminals and other properties and assets, both real and personal, the corporation holds;
- to undertake such construction and reconstruction of ferries or terminals as in the opinion of the corporation is necessary or required for the conduct of its operations;
- subject to the approval of or on the direction of the Lieutenant Governor in Council, to add or delete routes of the ferry or shipping service carried on by the corporation;
- to enter into agreements with or accept grants or fees for services from persons, corporations, municipalities or regional districts and other governmental authorities or any of their agencies, for the purposes of this section;
- to invest or loan the funds not otherwise required for the purposes of the corporation in those investments or loans authorized by the Lieutenant Governor in Council;
- subject to the approval of the Lieutenant Governor in Council, to acquire by any means, except by expropriation, the whole or any part of the property, assets

Corporate Mandate

and undertaking, and to assume in whole or in part the obligations and liabilities of any person carrying on or entitled to carry on activities which the corporation is authorized to carry on or which can be carried on incidental to, or in connection with, the exercise of the objects and powers of the corporation;

- subject to the approval of the Lieutenant Governor in Council, to acquire all or any of the shares of another corporation, incorporated for the purpose of, or engaging in, the operation of ferry, shipping and related services, or in any other business necessary or incidental to the operation of ferry, shipping and related services;
- subject to this Act, to borrow such money as the corporation considers necessary or advisable and to issue notes, bonds, debentures and other securities for that purpose; and
- to do things not inconsistent with this Act it considers necessary or advisable for carrying out any of its objects and powers.



Left: A section of the main hull being moved into position at Esquimalt

Above: Checking engine gauges

Statistical Review

	1992	1991	1990	1989	1988
KEY INDICATORS					
Operating income per passenger	$12.23	$11.65	$11.19	$10.47	$9.90
Operating expenses per passenger	$13.70	$12.98	$12.80	$12.50	$12.77
Percentage of operating expenses recovered from operating revenues	89%	90%	87%	84%	78%
Full - time equivalent employees (FTE)	2,945	2,808	2,657	2,537	Info not available
OPERATIONS (THOUSANDS)					
Traffic - Passengers	20,518	19,775	19,229	17,919	17,014
Traffic - Vehicles	7,956	7,707	7,499	6,885	6,491
Miles - Passengers	380,209	372,257	358,173	336,399	317,424
Miles - Vehicles	138,454	136,732	131,167	121,714	114,816
Utilization - Passengers	27%	27%	28%	27%	27%
Utilization - Vehicles	64%	65%	67%	65%	63%
FINANCIAL ($000')					
Operating income	$250,901	$230,419	$215,212	$187,599	$168,488
Operating expenses	281,169	256,740	246,189	224,060	217,296
Operating loss	(30,268)	(26,321)	(30,977)	(36,461)	(48,808)
Allocation of Provincial government subsidy:					
Operating	28,147	13,104	6,915	17,470	57,000
Capital	22,853	35,346	44,085	33,530	—
Cash flow from operations	19,834	21,189	10,407	6,095	27,231
Net additions to fixed assets	217,767	101,286	17,117	6,559	9,292
Total assets	593,809	426,651	374,651	355,241	349,579
Shareholder's equity	157,328	162,562	166,595	188,105	206,898

NB Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.

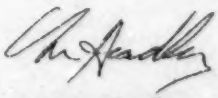
Message from the Chair

Maureen Headley, Board Chair, with Jimmy Hum in the Tsawwassen test kitchen

The Ferry System serves the Province and its people through the men and women who come to work every day, 365 days of the year. The business of sailing ships on the coast of British Columbia is one which B C Ferries has made to appear straightforward and unremarkable. After all, our customers drive their vehicles aboard, then go on to enjoy the quiet of the interior lounges, or the salt air of the open decks, and perhaps a snack or meal. But it is a little different if you are crewing a ship called out in the middle of the night to transport a Hydro repair truck, fixing lines on Bowen or Hornby or any of a dozen small islands during a hurricane-force storm. People who work on the sea know that it is through good organization, skills and good management that the vessel is brought safely to its port, and the responsibility of transporting thousands of customers each day is met. This is the responsibility that the Ferry Corporation lives with every day of the year.

The British Columbia Ferry Corporation, and the Ferry System which it operates on behalf of the Province, is a big business. During 1991-92 it employed the equivalent of 2,945 people full time, carrying over 20.5 million passengers and almost 8 million vehicles. In doing this it generated $251 million in sales (including fares, catering and other sources). It clearly is a service upon which many people depend, in one way or another. We, the officers and employees of the Corporation take that responsibility very seriously.

I was appointed to the Chair of the Corporation in June 1992. To my predecessor, Bill Long, and his colleagues who sat on the Board during 1991-92, I extend my appreciation. Their dedication and commitment is evidenced by the progress of the Corporation.



Maureen Headley

Report of the President and Chief Executive Officer

Managing growth, meeting the needs of over 20 million passengers, maintaining and improving safety and standards and initiating comprehensive planning for future needs defines the continuing challenge facing the British Columbia Ferry Corporation throughout 1991-92. We have made major efforts in improving customer service, in making our vessels, terminals and schedules more responsive to the needs of the clients and communities served by the Corporation.

A Capital Expansion Program has been the cornerstone of these improvements, because of the need to bring our vessels and terminals into line with new operational needs and new customer requirements. The work which has been done is described in detail later in this report, but I want to emphasise the significance of the efforts.

Queen of Capilano was commissioned in June 1991, the first new hull added to the fleet since Queens of Oak Bay and Surrey in 1981. Meanwhile, construction has gone well on a second ship in the same class, Queen of Cumberland. Progress on the first new large ship, destined for the Tsawwassen - Swartz Bay service, is on schedule, with delivery planned for the spring of 1993. This ship will be the largest ever built in British Columbia, but more importantly it will incorporate the cooperative efforts of over 260 individual B.C. suppliers, and the quality contribution of hundreds of British Columbia shipyard workers. The terminals at Tsawwassen and Swartz Bay are being significantly redeveloped in the first cohesive program since the original terminals were laid out in the 1960s.

Frank Rhodes

The Corporation also acquired the 105-car Queen of Chilliwack, now serving in Jervis Inlet. The ship provides the Ferry System with a versatile addition to serve the Sunshine Coast. The Corporation also double-decked, modified and repowered Queen of New Westminster, making the vessel much more efficient and more flexible. It is now running very successfully on the Mid-Island Express service between Tsawwassen and Nanaimo.

These terminal and vessel developments are only part of many moves toward an improved customer-service orientation. During 1991-92, a wide-ranging series of passenger surveys were commissioned to provide the Corporation with a clearer picture of customer needs and requirements. We will, over the coming years, stress greater service quality, going beyond minimum requirements and reaching to those characteristics which the customer looks for in a quality-driven organization.

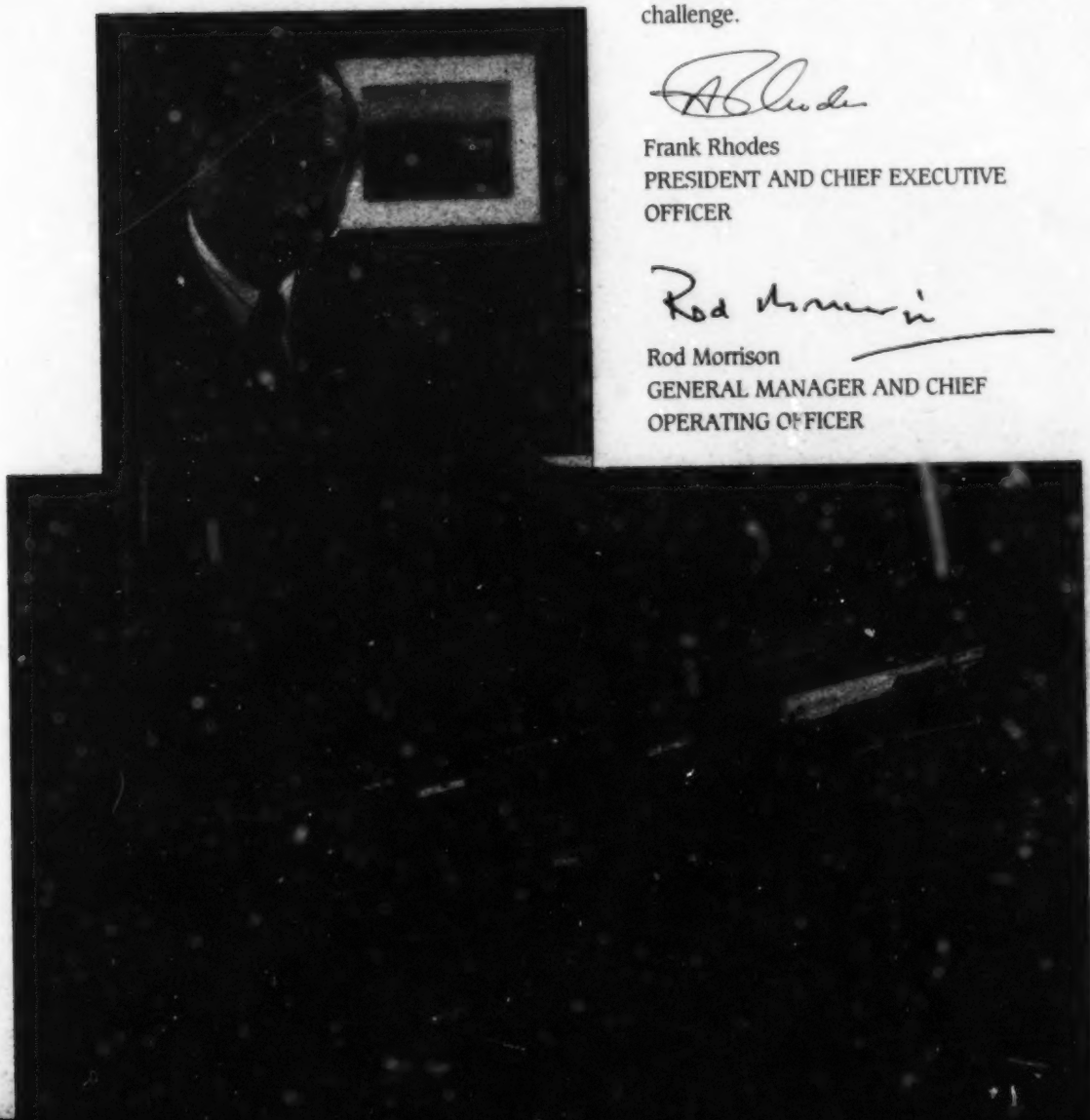
Report of the President and Chief Executive Officer

A commitment to the Corporation's human resources go hand in hand with increases in levels of customer satisfaction, since the business of service means service which is provided by many individuals, every day. The Corporation is facing a variety of challenges brought about by an expanding workforce, a changing demographic profile, and the need for new skills and new ways of looking at how the Corporation does its business.

All of these issues and challenges call for broadened consultation with a widening cross-section of interests. The resident of an area which may be affected by local operations; the resident dependent upon the Ferry System for the daily link to the rest of the Province; or the employee, contractor or supplier for whom the Ferry System is a livelihood; all of these have a desire to be heard. The Corporation is at a stage in its history when it must strengthen human resources, replace and improve ships and terminals and strengthen links with the customers it serves. Serving British Columbia and its citizens safely and efficiently remains our mandate and our challenge.

Frank Rhodes
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Rod Morrison
GENERAL MANAGER AND CHIEF OPERATING OFFICER



Top photo: Rod Morrison

Left: An aerial view of the new superstructure under construction in Delta

The Year in Review

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During 1991-92 system-wide passenger traffic increased 3.8% while total vehicle traffic increased 3.2%. This was an improvement over the growth rates of the previous year (2.8% in both passengers and vehicles), and significantly higher than the growth forecast at the beginning of 1991-92. The British Columbia economy slowed during the period. The Corporation is looking forward to continuing traffic growth, forecast at 2-3% for the 1992-93 fiscal year.

The Ferry System is affected by fluctuations in the national and provincial economies and to a lesser extent by economic activity in the American Pacific Northwest, but it is also a major player in the local economies of many small communities on the coast. For this reason, every effort was made during the year to maintain levels of service in order to offset the effects of economic slow down.

[redacted] PEOPLE

During 1991-92 B.C. Ferries made many efforts to improve its service orientation. The most pronounced efforts always come during the summer service, when proportionately more of our customers travel (about 25% of annual traffic in two months). The massive changes which had been undertaken at Tsawwassen were first tested by the summer of 1991. It was soon discovered that new approaches were needed to accommodate the number of sailings and volume of traffic using the terminal. These were implemented at Tsawwassen, with a view to future applications at other terminals when their needs increase. These new arrangements will be more effective for the passenger and more economical for the system.

The summer service plan is of critical importance, not least to those who depend upon the Ferry System to transport their customers, and their supplies. A major component of the summer service plan is the marketing and advertising function which ensures that the messages get out to the communities, residents and tourist bureaus throughout the Province.

The role of communication generally received greater attention this year. It takes the form of marketing and advertising for some purposes, but it also takes the form of consultation and directed communication for other purposes. The Corporation recognized during the year that greater resources must be directed at the consultative process in order to ensure that all interested parties have the opportunity to make their views known before actions affecting their lives are undertaken.

Positioning the wheelhouse of the S-class ferry

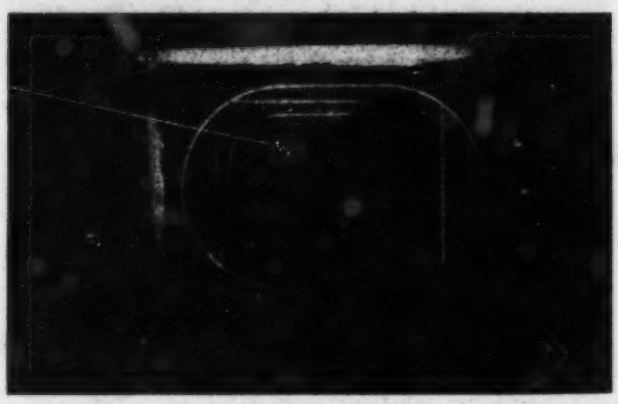
A Deas Dock painter at work

The Year in Review

Right: In the galley

Below: A detail of the S-class ferry construction

Service takes many forms, in some cases consisting of changes to dock weight-loadings to allow for larger vehicles to be carried, or the positioning of a slightly larger vessel to eliminate waits on the smaller services. The complexities of the business mean that a change at one site can impact at various other locations. It is the daily challenge of the business to improve the total situation without unduly impacting any individual service. An interesting example of this problem was the realignment of the Nanaimo (Departure Bay) holding compound in preparation for the summer of 1991. The terminal, with a shortage of holding space and faced with loading for two routes (to Horseshoe Bay and Tsawwassen), converted a former



crew-parking area to a holding area for the upper car deck. This allowed for the early ticketing of those vehicles, thus speeding the loading process and getting the ships out faster.

The Year in Review

The people who make up the Corporation are dedicated to the successful delivery of the service. In this effort, safety is the primary value, both in providing the customer with a safe trip but also in maintaining safe work sites and work practices for employees.

During the year the Corporation implemented a restructured Safety Committee system to address the current needs of the many work sites of the organization. This was undertaken cooperatively with the British Columbia Ferry & Marine Workers' Union, and with the assistance of the provincial Workers' Compensation Board. The primary change has been the establishment of six regional safety committees, each of which includes regional management with budgetary and decision-making responsibility.

Implementation has involved a substantial amount of training for safety committee delegates, and has significantly improved the link between the Safety Department (with its mandate of promoting occupational safety and health), regional management and employee representation, and the local work site safety committees.

The Corporation is also committed to managing human resources planning. The history of the Ferry System's development can be read in the age profile of its employees, reflecting in particular the two major expansions of the early and late 1960s. These employees are now passing through retirement, and their knowledge and skills must be replaced.

The opportunity is to restructure the workforce to reflect the Province's population of the 1990s. Many of the traditional occupations continue while

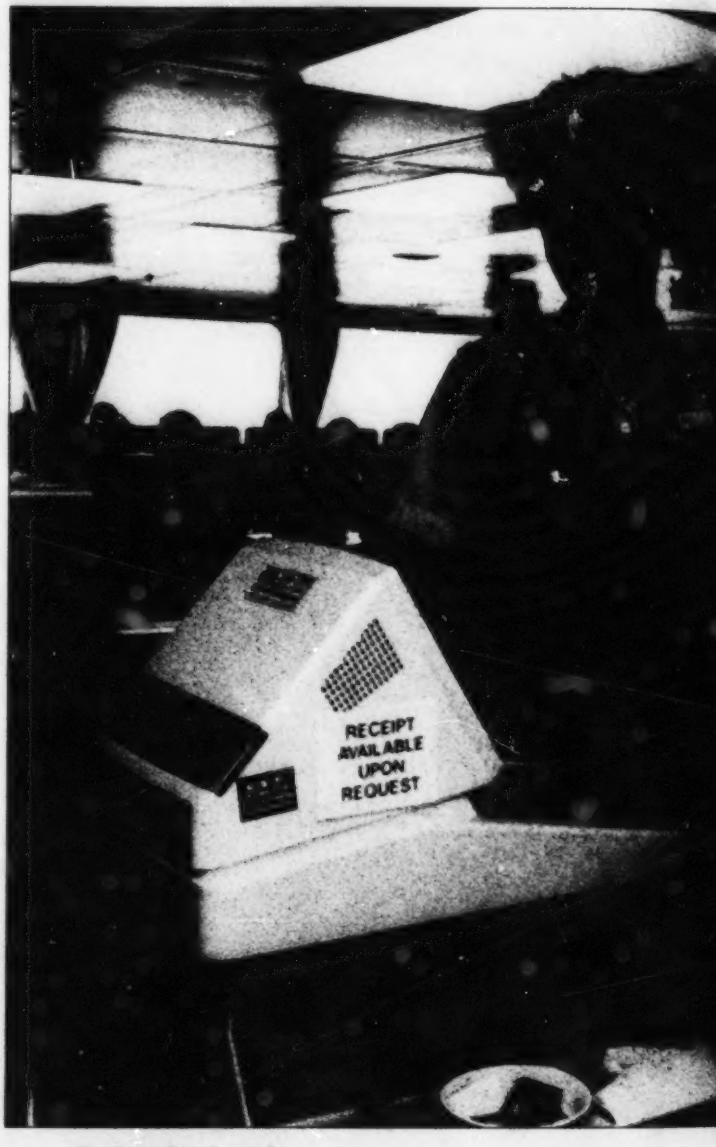
At Nanaimo Harbour Terminal

The Year in Review

many new occupations have appeared. The Corporation is committed to bringing its workforce into the 21st century through progressive employment practices. A start on this was undertaken in 1991-92 with the appointment of an Advisory Committee on Women's Equality. With the counsel of the Advisory Committee, programs will be initiated in 1992-93 to encourage, assist and promote women in achieving their personal and career goals.

The challenge, however, is recruiting new employees with the right combination of training, dedication, skills and certifications to effectively serve the Ferry System and its customers. It is estimated that for a newly-hired deck hand to become a Chief Officer (second in command to the Captain) would take a minimum of ten years, involving classroom training, watchkeeping hours ("seatime") and examinations.

Training and personnel development have received more attention this year. The Corporation has always strongly supported operational training as a means of ensuring the safe and efficient operation of all of its vessels and terminal sites. In fact, in an organization of 2,452 positions, the Training Department administered a total of 5,844 sessions (whether part days, whole days or multiple days) for a total of 13,785 training days. To supplement such hands-on job-specific training, a supervisory module was initiated in 1989. This process not only imparts knowledge to the newly-appointed supervisors who are the target group, but also solidifies the links between the operating crews and the management staff.



On the cafeteria cash

The Year in Review

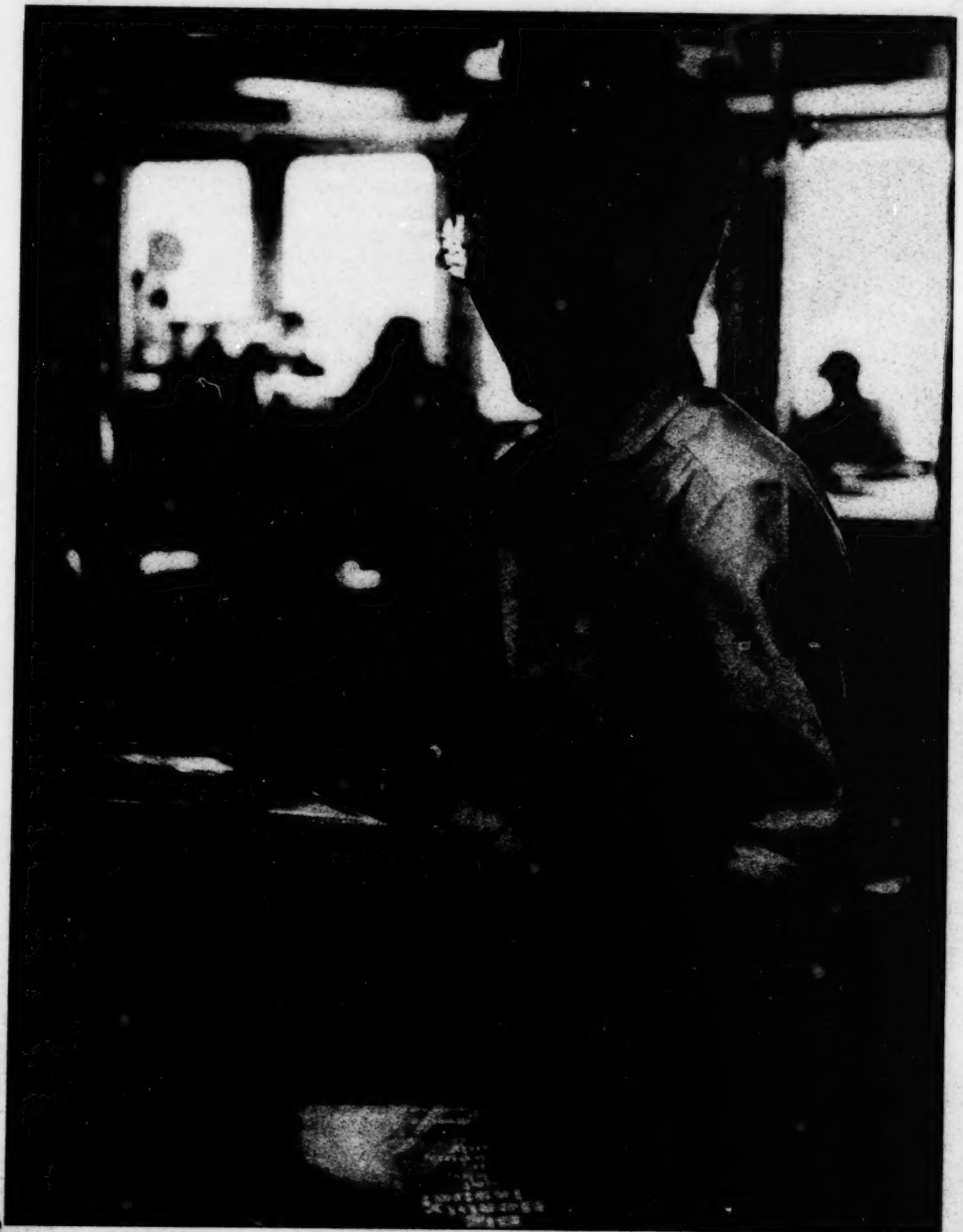
This fiscal year saw the graduation of two such supervisory groups, a total of 48 men and women.

During 1991-92 the Corporation contracted with the provincial government's Centre for Executive and Management Development for a management training needs analysis. From that process the Centre customized two of its existing programs, aimed at middle and senior management, for the particular requirements of the Ferry Corporation's staff. It is anticipated that the first classes flowing out of this process will be offered in November 1992.

Innovation, while it is essential to the continued health of the Ferry System, must be undertaken with sensitivity and care, to ensure that the central achievement of the system, the safe and efficient transportation of people 365 days a year, is not compromised.

The Corporation continued during 1991-92 to carefully bring innovations forward which will benefit the Ferry System and its customers the most. At year end, plans were in place for the acceptance of bank credit cards on a pilot basis at Swartz Bay terminal. The Corporation has in the past accepted credit cards where speed was not critical (such as in administration offices, or for payment of reservation accounts on the northern services). The criteria for a successful pilot will be the ability to handle credit card transactions at speeds similar to cash transactions.

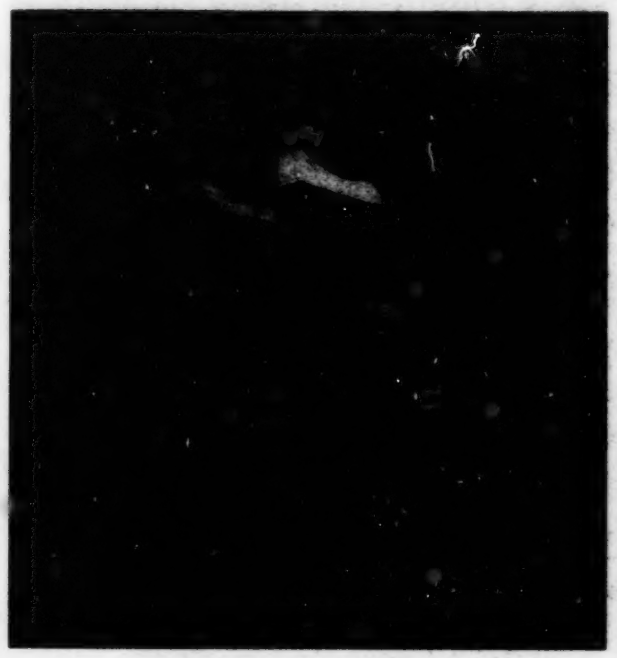
In a related development, efforts are also in place to expand the acceptance of Commercial Travel Cards (CTCs). These accounts are operated in the form of a debit card (the customer maintains cash on deposit with the Corporation against which charges are debited) and used to facilitate commercial traffic movements. Each company can have as many individual cards as it has trucks, thus enabling such companies to simplify their accounting records in respect to ferry fares. It also simplifies the Corporation's handling of



A newsstand cashier at work

The Year in Review

commercial fares. During 1991-92 the provincial government reached an agreement with the Corporation for the acceptance of CTCs for the payment of Coquihalla Highway tolls.



Under the stern of the new S-class ferry

The Ferry System's engineering base has also been seeking new ways of operating. On the terminal side, considerable time was spent investigating new fender-pad technology, with the intention of moving away from traditional creosoted-timber construction. Once implemented, this will pay environmental dividends as well as improve cost effectiveness and reduce maintenance requirements. Another major project saw a significant start made on the provision of cathodic protection for major steel structures in a salt-water environment. Primary focus is on steel sheet pile retaining walls and steel piles. The first system has been installed at Horseshoe Bay, and design work continues for a system for Tsawwassen.

In Fleet Engineering, development of the in-water inspection of ships' hulls continued during the year. This will save thousands of dollars each year, as it eliminates the need to drydock each vessel every two years in favour of a quadrennial drydocking cycle. Video-based hull inspections, in which a diver shoots the whole surface of the underwater body, allows inspectors on land to see the shooting as it occurs, and also review footage if necessary. It also means the available drydock space, in Esquimalt and in North Vancouver, is used more efficiently.

[redacted]

In June 1991 the Corporation commissioned its first new hull in 11 years, Queen of Capilano. This vessel, to be joined in 1992 by a second of the same class (Queen of Cumberland), is a new class of minor vessel with a rated capacity of 85 and 127 cars respectively. Initially placed in service in Jervis Inlet, Queen of Capilano has achieved loads of up to 98 cars, the result of combining an open-plan car deck with today's smaller cars. The vessel has brought together the latest propulsion and navigational technologies and a spacious and airy passenger lounge to provide superior customer amenities.

In July 1991, the Corporation commissioned Queen of Chilliwack, a 105-car vessel acquired from Norway. The vessel was sailed from Norway to Victoria via the Panama Canal, crewed by two specially selected groups of employees. The vessel departed Norway on May 6, reached Panama on May 26 and arrived Victoria on

The Year in Review

In the wheelhouse of the Vesuvius ferry

June 11. After refitting in Victoria to upgrade the vessel to British Columbia Ferry Corporation operating standards, the vessel entered service in the Southern Gulf Islands. The ship has proven highly efficient and practical, both on Gulf Island service and in Jervis Inlet, two high-demand minor routes.

Queen of New Westminster was double-decked and repowered during the year. New engines, generating a total of 15,500 horsepower, were installed as was a new ten-foot high upper car deck. At the same time, the ship was completely refurbished internally, with new decor and furniture appropriate to its mainline service. The vessel was also fitted with a new underwater body, the lines for which were produced through work at the test tank of the Ocean Engineering Centre of B.C. Research (University of British Columbia). In sea trials prior to commissioning the ship proved itself capable of speeds exceeding 23 knots. Certain initial problems with vibration in some of the passenger areas were resolved, and the ship is now in regular service on the Mid-Island Express between Tsawwassen and Nanaimo.

The Year in Review

As a major part of the Corporation's efforts to improve its customer relations, employee relations and operational efficiency, major projects were initiated during 1991-92 to improve the information resources available. This effort has included both new developments in the computer group and renewed market research work.

Several related traffic-management projects have been implemented. The Traffic Statistics System (TSS) and Traffic Analysis System (TAS) will help the Corporation to forecast demand with greater certainty and assign ships (and individual sailings) in a way that will most benefit the travelling public, while meeting the Corporation's efficiency requirements.

TAS was first developed in response to the growing need to properly organize the stowing of vehicles and counting of passengers boarded on each sailing. It has been fully implemented at Swartz Bay and Tsawwassen. The system provides a more accurate recording of passengers on a vehicle-by-vehicle basis, so that arrivals are properly ordered in the load, and the volume of passengers carried is kept within the safe limits established by Canadian Coast Guard. It also supports the expeditious loading of the various combinations of vehicles which are presented for any particular sailing.

The data generated by the TAS system has already been applied in support of more sophisticated computerized traffic simulation and modelling techniques to aid in scheduling and ship deployment. This tool proved invaluable in the preparation of the 1992 Service Plan.

Employee record-keeping, currently an assortment of computerized and manual records, will be modernized through the Employee Relations Information Network (ERIN). ERIN was implemented in 1991-92 to support the Human Resources Department in its mandate of providing the Corporation with up-to-date information on its employees in order to accomplish proper manpower planning and career development. The regulatory environment within which B.C. Ferries operates means that every employee's lifesaving, navigational or engineering qualifications (certificates) must be known and accounted for in order for the Corporation to (a) make the most efficient use of human resources, and (b) make suitable arrangements for the replacement of skills lost through promotions and retirements. This state-of-the-art system, designed on a PeopleSoft(C) software platform, will assist the Human Resources Department to provide the most timely, accurate information possible to meet the Corporation's needs now, and in the future.

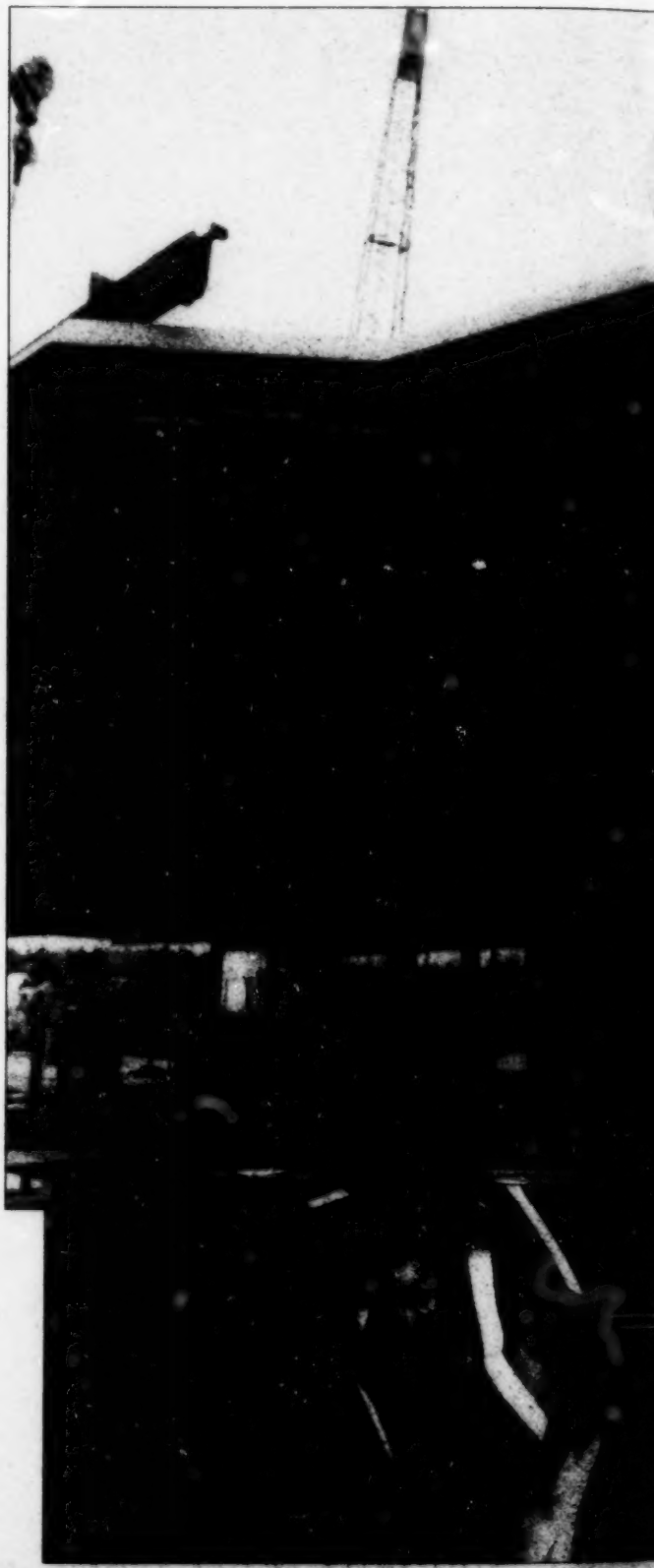
Moving stores

The Year in Review

Investigations have also been initiated into a redesigned reservations system. Reservations are currently offered on routes between Tsawwassen and the Gulf Islands, Prince Rupert and Port Hardy, and Prince Rupert and the Queen Charlotte Islands. These systems are running on antiquated computer hardware, and are themselves overdue for major redesign. This work is being coordinated with the acquisition of new ticket-booth point-of-sale (cash register) equipment to ensure that all parts of the process are compatible. In addition, it is anticipated that the current manual reservation system for group travel on the Strait of Georgia services (amounting to about 65,000 transactions per year) can be tied into a new reservations program.

Other work has been directed at the administrative side of the business. These have included the development of replacements for the aging accounts payable (delivered in 1991-92), payroll and revenue systems. These latter projects are expected to be delivered in fiscal 1992-93.

The expanded market research program initiated two years ago continued during 1991-92. Market segmentation surveys were conducted during the summer, shoulder and winter seasons. This information is being used to develop a customer database containing background information on user-travel patterns and preferences. Other market research studies were conducted on specific issues including: a customer awareness and route-choice study of the Mid-Island Express service; foot passenger luggage handling needs at major terminals; and a credit card pilot project.



The Year in Review

Above: Preparing to install the S-class ferry wheelhouse

Left: Getting ready to disembark

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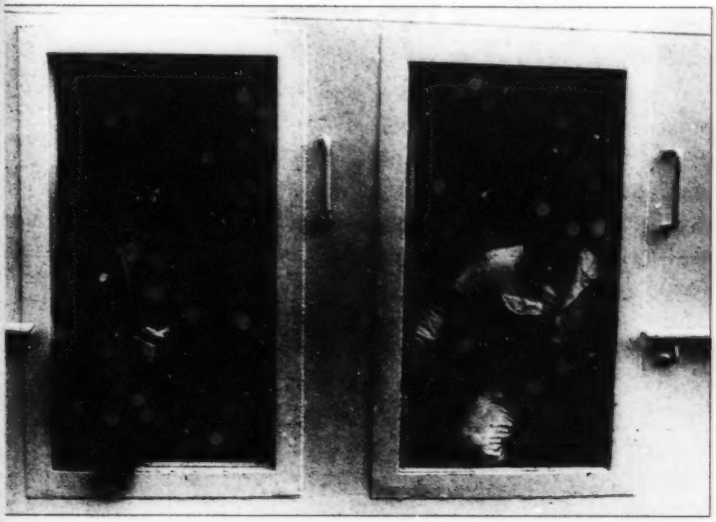
The Corporation has become more aware of its environmental responsibilities over the past 12 months. There is a growing recognition that the public expects more from its public agencies than strict compliance, and in fact expects a proactive stance on such significant issues.

Recent efforts have begun with the appointment of an Environmental Coordinator reporting to the General Manager. This position has wide-ranging responsibilities to identify both regulatory and non-regulatory issues which deserve attention from the Corporation, which will enhance our relationship with the physical environment.

Recycling initiatives have been undertaken at many local sites in the Corporation, to extract such things as newspapers and pop cans from the waste stream, diverting the collections to separate bins. Efforts to eliminate single-use containers have continued. Styrofoam coffee cups are no longer used by the Corporation, replaced with a cardboard substitute. This has presented certain developmental issues, and we continue to look for the perfect (ie. recyclable/bio-degradable and customer-friendly) replacement for styrofoam. The need to replace aging juice-dispensing equipment in the cafeterias offered the opportunity to extend that form of service to other juices, leading to the elimination of single-serving juice boxes. This represents a good degree of progress, since the Ferry System was selling about 1 million such packages per year. The Corporation is also experimenting with the use of electric hand dryers aboard some major ships to reduce the consumption of paper towels and roller-towels.

Capital Expansion Program



On the Gabriola Island service

Steady traffic growth since the mid-80s, coupled with an aging fleet and inadequate shoreside facilities at major terminals, prompted an extensive expansion program initiated in late 1988 that will add some $440 million of capital assets to the Corporation's capacity. Construction of two 470-car S-class ferries, two 85-car ferries and redevelopment of the major terminals was undertaken to provide the capacity and facilities required to meet traffic demand and changing traffic patterns through the 1990s. The results of the Capital Expansion Program became increasingly evident as the 1991-92 year progressed, with projects under way through the New Construction Division yielding dramatic progress in ship construction and shore development at Tsawwassen and Swartz Bay. As construction has progressed, the aggregate cost remains within original allocations approved by the Corporation's Board of Directors.

CLASS

Construction of the first 470-car ferry commenced in April 1991 under the direction of the prime contractor, Integrated Ferry Constructors. The first construction work was undertaken at Allied Shipbuilders in North Vancouver, which won the contract to build the forward section of the hull. The other two blocks, comprising the stern section of the hull and the superstructure, were awarded, respectively, to Integrated Module Fabricators of Esquimalt, and Pacific Rim Shipbuilders in Delta.

To the end of fiscal 1991-92, the ship was 65% complete overall. The scheduled launching of the two hull blocks in April 1992 will represent milestone events of major proportions for the Corporation and the B.C. shipbuilding industry.

In late February 1992, the provincial government announced that B.C. Ferries would proceed with construction of the second 470-car ferry. This announcement rekindled shipyard confidence that the modernization initiatives undertaken for the construction of the first 470-car ferry would ensure long-term benefits by enhancing the stability of the shipyards, and their ability to bid on other world-class shipbuilding projects.

From the Corporation's perspective in terms of operating efficiency, the new S-class vessels will offer the greatest flexibility to accommodate the varied mix of vehicle types, and to meet current scheduling demands and forecasted traffic growth. The vessel's design incorporates superior passenger amenities, and its state-of-the-art propulsion and health monitoring systems will translate into fuel efficiencies, reduced

Capital Expansion Program

The crew of Vesuvius Queen

maintenance costs and environmental enhancements. In short, the new 470-car ferries will serve as a showcase for the Corporation's initiatives to provide the best possible Ferry service in the most efficient, cost effective and environmentally sensitive manner.

The 470-car ferries can accommodate 2100 passengers each, and will operate between Swartz Bay and Tsawwassen. The first ship will enter service in early summer 1993, with the second ship to follow in the summer of 1994.

[redacted] Queen of Capilano, the first of two 85-car ferries built by Vancouver Shipyards at North Vancouver, was commissioned in June 1991.

The vessel was officially delivered to the Corporation on July 6, 1991, at which time crew familiarization manoeuvres were initiated. Its entry into service on the Earls Cove - Saltery Bay service was delayed, however, until late August due to mechanical faults with the four right-angle-drive units. The supplier is progressively making the necessary modifications to the right-angle drives, minimizing service disruptions. While the vessel's official capacity has been noted at 85 vehicles, it is

Capital Expansion Program

Working the grill

not unusual for up to 98 vehicles to be loaded on any one sailing. These operating efficiencies, plus excellent passenger amenities, have been well received by the public.

The second vessel of this type, the 127-car Queen of Cumberland, is scheduled to be commissioned in late April 1992, for entry into service between Swartz Bay and the Gulf Islands in early June. The two ferries are identical in design, but Queen of Cumberland has been fitted with retractable platform decks which effectively increases its capacity to 127 cars.

The new shoreside facilities at Tsawwassen and Swartz Bay terminals are highly visible and dramatic steps in fulfilling the corporate goals of increased operating efficiency and improving passenger service.

As the primary Lower Mainland terminal, Tsawwassen serves Swartz Bay, Nanaimo and the Gulf Islands. The redevelopment concept, structured in two phases, is intended to expand vehicle holding capacity, improve vessel loading and discharge efficiency, upgrade the marine structures, provide improved passenger amenities, and provide lay-by berths for vessels not in service.

Capital Expansion Program

Construction commenced in February 1991 and by the start of the summer schedule, several key elements of the Phase I projects will be in place, notably:

- terminal expansion on the north side adds eight hectares of land, increasing the vehicle holding compound from 900 to 2500 spaces
- a new exit lane on the north side eliminates cross-traffic delays
- 13 ticket booths provide faster ticketing to help eliminate traffic line-ups
- Berth 5, the most northerly dock, has been upgraded for use as the primary Mid-Island Express berth as well as being suitable for S-class ships
- a new public address system capable of servicing the enlarged terminal area
- in keeping with the Corporation's environmental policies, a marsh enhancement area was created to improve fish habitat, and 90,000 eelgrass plugs were planted to compensate for the impact of the dredging operations
- two new passenger service modules in the vehicle holding compound, incorporating washrooms, food services, telephones and information displays
- a new higher traffic control tower, to provide a panoramic view of the enlarged terminal, dockside operations, and approaches
- hooking up to the Delta municipal sewer system

Planning and the environmental approval process are ongoing for Phase II of the Tsawwassen redevelopment. The features of this phase were designed to complete the terminal's change to an extremely efficient facility capable of responding to long-term growth in demand. Projects being contemplated include:

- filling 2-3 hectares in the south west corner of the terminal and replacing 2 of the oldest docks
- constructing a new passenger terminal building dockside, to eliminate the existing long walk
- converting the south west vehicle holding compound into public parking

Deas Dock trades

Capital Expansion Program

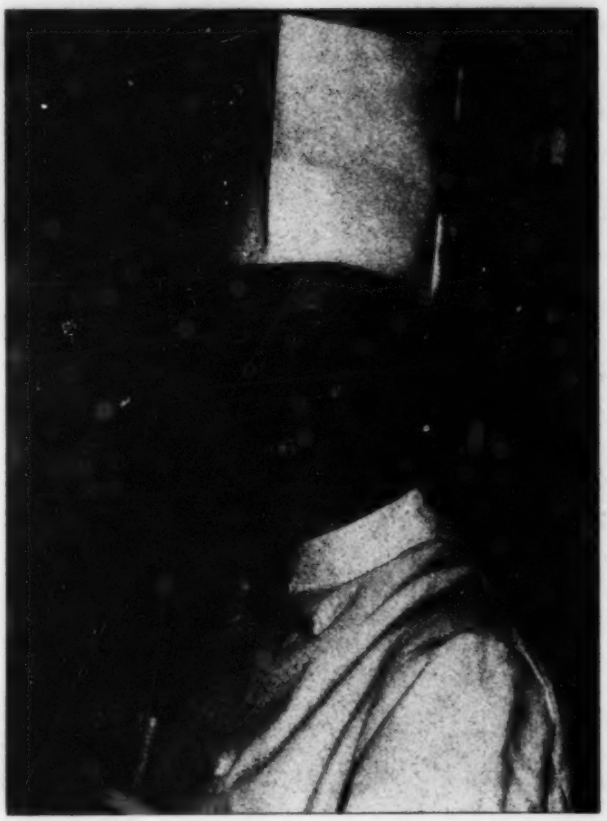
Swartz Bay terminal serves Tsawwassen and the Southern Gulf Islands. Redevelopment will upgrade and expand pay parking and vehicle compound capacities, transfer decks and marine structures. New facilities will replace an overtaxed and inefficient passenger terminal building.

Construction commenced in the spring of 1990 and by summer of 1992, the following improvements will have been completed:

- upgrading berth 3 to a double decked facility capable of accommodating V-class and C-class vessels
- reconstructing berth 1 to make it capable of accommodating the new 470-car ferries along with modifications to improve efficiency
- increasing public parking to approximately 730 stalls along with a better pick-up/drop-off zone
- constructing a new passenger service module in the vehicle compound
- the construction of an interchange by the Ministry of Transportation and Highways at Pat Bay Highway and Lands End Road, to allow access to the new pay parking and passenger pick-up and drop-off areas, and to improve residential access during peak traffic periods

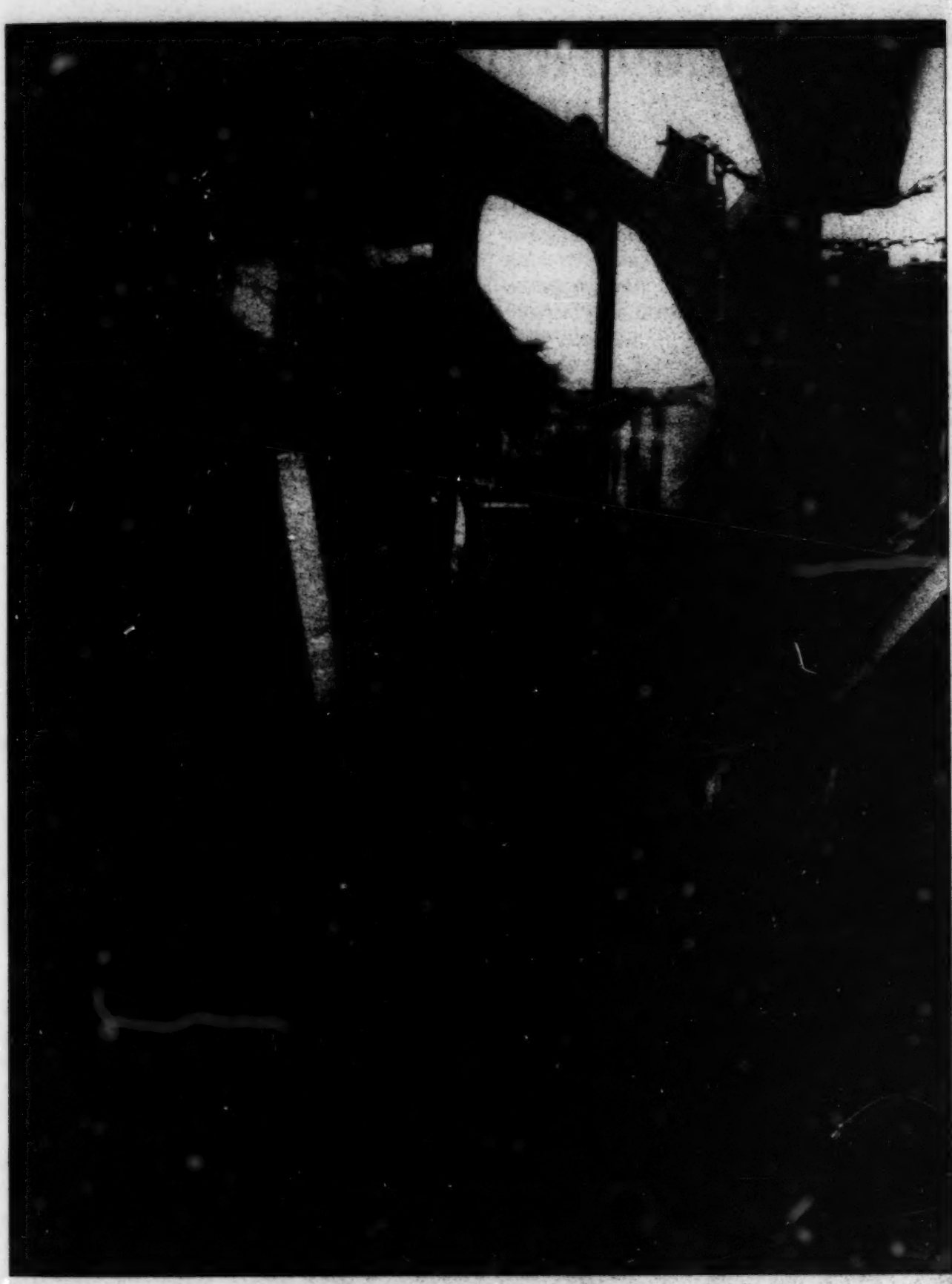
Remaining works in the redevelopment will be completed by June 1993, and include:

- increasing the inner holding capacity to eliminate delays during busy periods
- constructing an exit lane on the east side, to eliminate delays caused by crossing traffic



Aboard Queen of the North

- installing a new public address system designed to cause the least possible residential intrusion
- upgrading sewage treatment, water and storm drainage facilities



Putting the loading ramps in position

The Friendship Fleet

Vessels According to Vehicle Capacity	Year Built	Length (Ft.)	Tons (Gross)	Capacity (Auto)	Capacity (Pass.)
Queen of Esquimalt	1963	427	9304	376	1360
Queen of Cowichan	1976	457	6551	362	1466
Queen of Coquitlam	1976	457	6551	362	1466
Queen of Oak Bay	1981	457	6969	362	1466
Queen of Surrey	1981	457	6969	362	1466
Queen of Vancouver	1962	427	9357	336	1360
Queen of Saanich	1963	427	9302	336	1360
Queen of Alberni	1976	457	5863	300	1170
Queen of New Westminster	1964	427	8705	294	1360
Queen of Victoria	1962	427	9369	286	1360
Queen of Burnaby	1965	427	4903	192	1183
Queen of Nanaimo	1964	427	4939	192	1183
Queen of the North	1969	410	8889	157	800
Queen of Sidney	1960	336	3128	138	989
Queen of Tsawwassen	1960	336	3127	138	989
Queen of Chilliwack	1978	376	5618	105	389
Queen of Capilano	1991	315	2855	85	300
Queen of Prince Rupert	1966	332	5864	80	504
Powell River Queen	1965	279	1486	70	400
Howe Sound Queen	1964	241	805	70	400
Mayne Queen	1965	279	1476	70	394
Bowen Queen	1965	279	1476	70	394
Quinsam	1982	285	1458	70	400
Quinitsa	1977	245	1107	50	394
North Island Princess	1958	197	841	49	293
Salt Spring Queen	1949	145	276	36	175
Vesuvius Queen	1950	150	277	32	135
Quadra Queen II	1969	163	771	30	293
Tachek	1969	163	751	30	200
Kahloke	1973	180	466	30	195
Klitsa	1972	156	348	26	195
Kwuna	1975	180	347	26	150
Tenaka	1964	155	651	30	244
Mill Bay	1956	120	175	16	134
Nicola	1960	110	255	16	129
Albert J. Savoie	1961	114	256	16	133
Nimpkish	1973	111	266	16	133
Garibaldi II	1964	110	337	7	332
Dogwood Princess II	1979	42	21	-	38

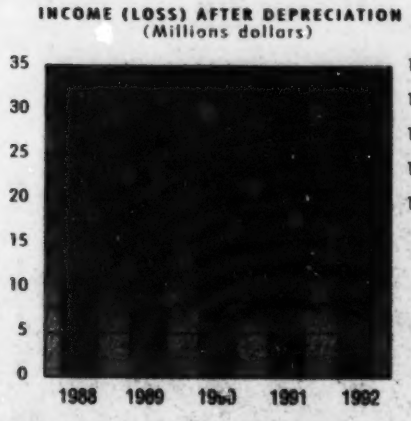
* *Queen of the Islands*, a vessel of 45-car capacity built in 1963, was sold in October 1991.

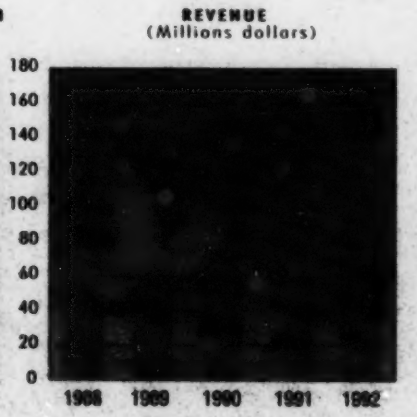
Vancouver Island Service Area

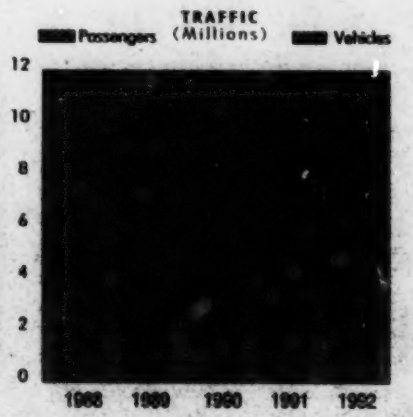
The services across the Strait of Georgia from the Lower Mainland to southern Vancouver Island are the Ferry System's "mainline" routes, carrying about half of all passenger and vehicle trips. These routes are also the most financially efficient, generating a surplus of $31.0 million this year.

The three services, Swartz Bay - Tsawwassen, Tsawwassen - Nanaimo and Nanaimo - Horseshoe Bay each have distinctive characteristics. The Swartz Bay - Tsawwassen service has been extremely stable over the years, growing steadily with the growth of the economy and population of Greater Victoria and the South Island area. The Nanaimo - Horseshoe Bay service is more susceptible to periodic economic downturns in the resource industries, and in the economies of the mid and north island. The Mid-Island Express from Tsawwassen to Nanaimo is the system's newest route. After the initiation of service in May 1990, the route carried during 1991-92 approximately 1.4 million passengers and 600,000 vehicles.

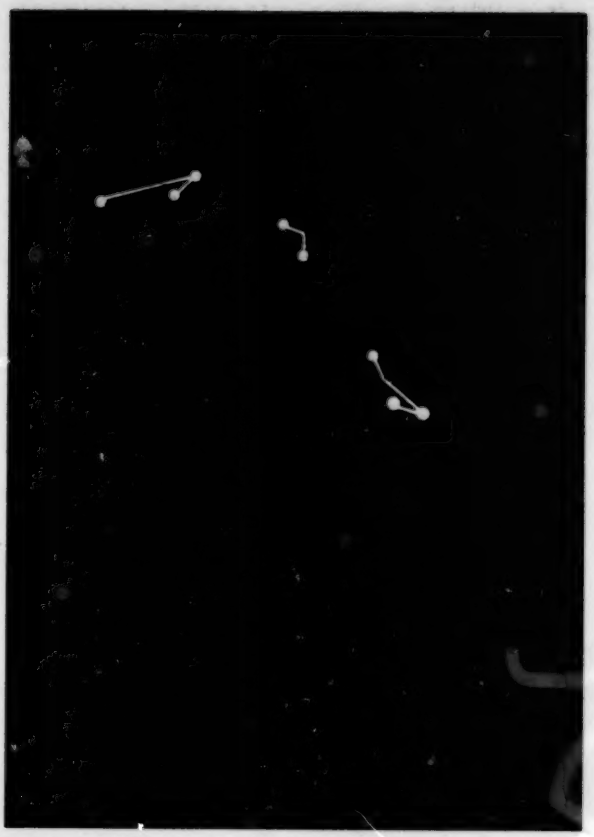
The Capital Expansion Program projects at Tsawwassen and Swartz Bay will significantly improve the Corporation's ability to provide a comfortable travel experience for our customers. In addition, the commissioning of two new larger vessels, the first in 1993 and the second in 1994, will provide more passenger and vehicle capacity, and more modern passenger amenities.







Sunshine Coast Service Area



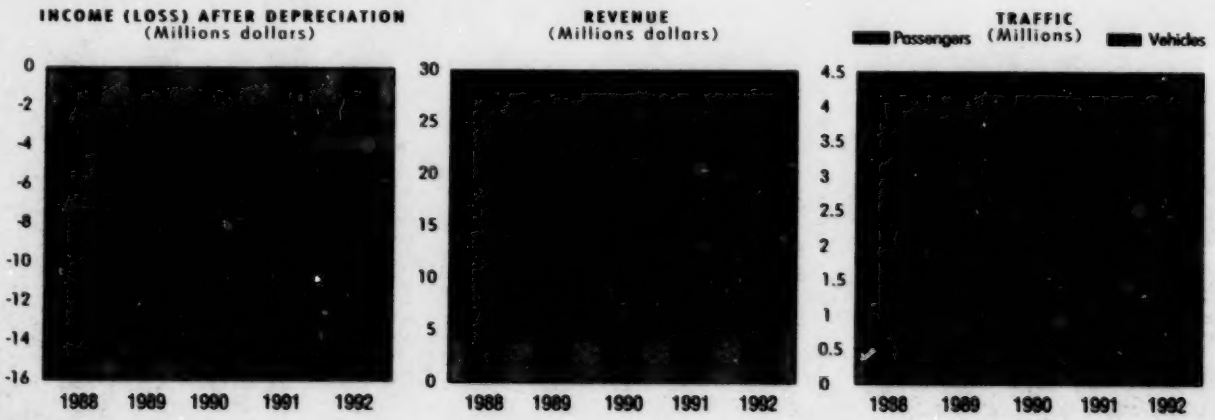
This service area includes routes in Howe Sound (Horseshoe Bay to Bowen Island and to Langdale; from Langdale to Gambier and Keats Islands), in Jervis Inlet (between Earls Cove and Saltery Bay) and in the Strait of Georgia (from Powell River to Comox and to Texada Island).

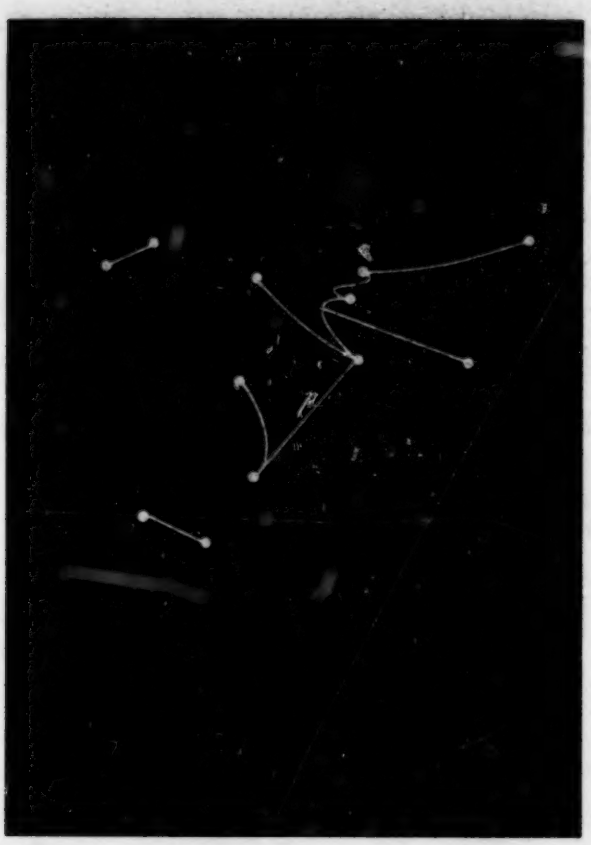
This area experienced a slight increase in passenger traffic this year (up 1.7%) but a 1.3% decline in vehicle traffic. The most notable event in the area was the disposition of additional capacity in Jervis Inlet. This route, from Earls Cove on the Sechelt Peninsula to Saltery Bay south of Powell River, has long been served by the 70-car Powell River Queen. In February 1992, the newly acquired Queen of Chilliwack (a 105-car vessel) was committed to the service.

During the year the Corporation acquired additional land adjacent to Langdale terminal. The area has been graded and gravelled for parking space, and further improvements are contemplated for future years. B.C. Ferries is coordinating its improvements with the access upgrading being undertaken by the Ministry of Transportation & Highways.

The Corporation also cooperated with the Ministry of Transportation & Highways, and with the Ministry of Environment & Parks, in developing an emergency ferry dock in Porteau Cove Provincial Park on Howe Sound. This facility has afforded multiple benefits for park users, but will also enable the government to maintain a reasonable level of communication to the Squamish/Whistler area in the event that Highway 99 is again blocked by rockfalls as it was during the winter of 1990-91.

The deficit in this area increased by 22% this year, to $12.8 million from the previous year's $10.5 million.





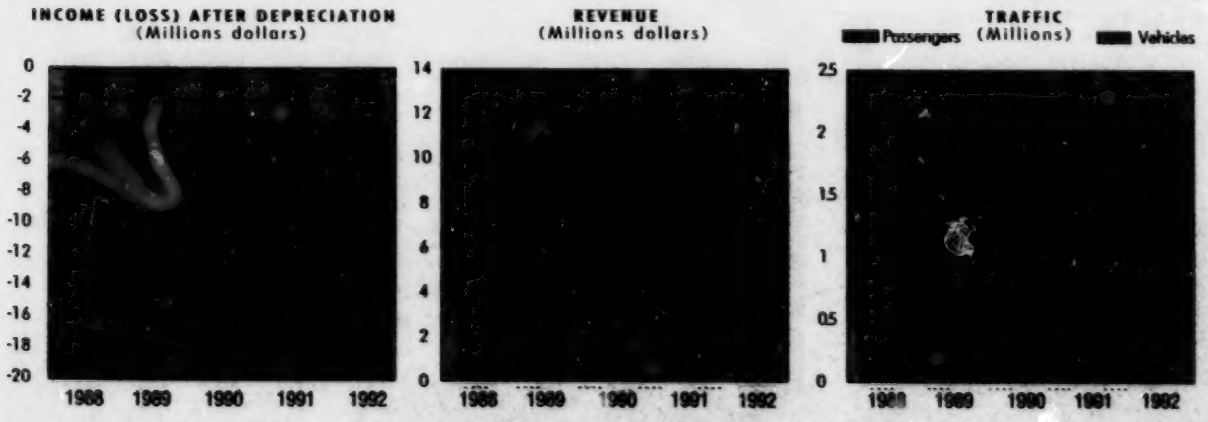
Southern Gulf Island Service Area

This area experienced strong traffic growth during the year, with 5.7% more passenger trips and 4.9% more vehicle trips. This was made possible in part by the provision of additional service on the Gulf Island services from both Swartz Bay and Tsawwassen. Queen of Chilliwack, a 105-car vessel, entered service in July 1991 on the Swartz Bay - Gulf Island run.

The Tsawwassen - Gulf Island service is supported by a reservations system which is no longer adequate for the needs of the users. As a result, the Corporation began examining alternatives to the current system, with the intention of improving customer service, increasing efficiency and enhancing the effectiveness of the ships in service. A new system, when it becomes operational, would also replace the current computer reservation systems supporting the Inside Passage and Queen Charlotte Island services, and the manual reservations system for handling groups on the Strait of Georgia.

The Southern Gulf Island routes serve a variety of customers and economic needs. Recent market survey work has identified various groups of users, such as residents, weekend residents and summer visitors (from both within and outside of British Columbia). In addition, there are groups who are not users as travellers but who are served by the Ferry System because it brings their customers to the islands, brings their food and other consumables, exports their products, or transports other commercial cargoes. Each of these groups has specific interests in the development of the Ferry System.

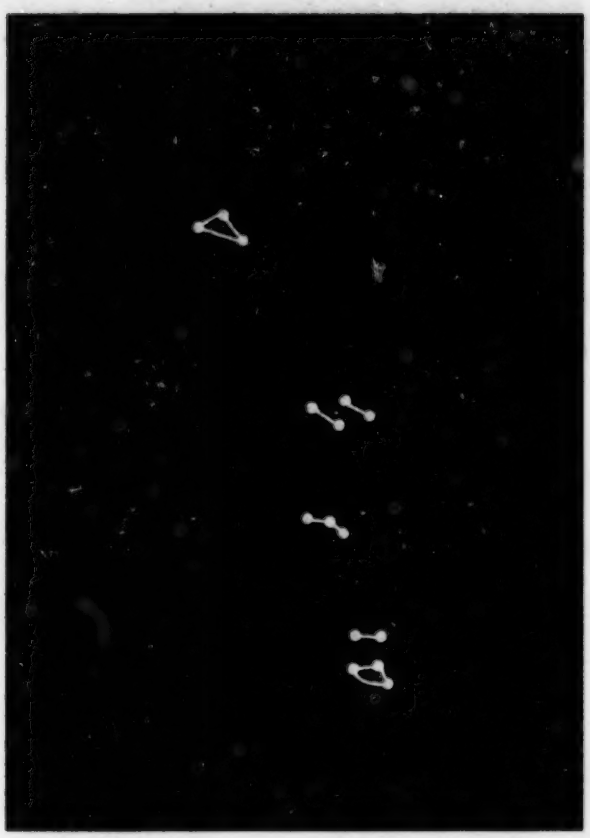
The deficit in this area amounted to $18.4 million in 1991-92, up 6.1% from the $17.4 million loss incurred in 1990-91.



Northern Gulf Island Service Area

The seven routes in this area link several small islands in the Strait of Georgia to Vancouver Island. Service is provided by vessels ranging in size from 16 cars to 70 cars, operating schedules of 12 to 20 hours per day.

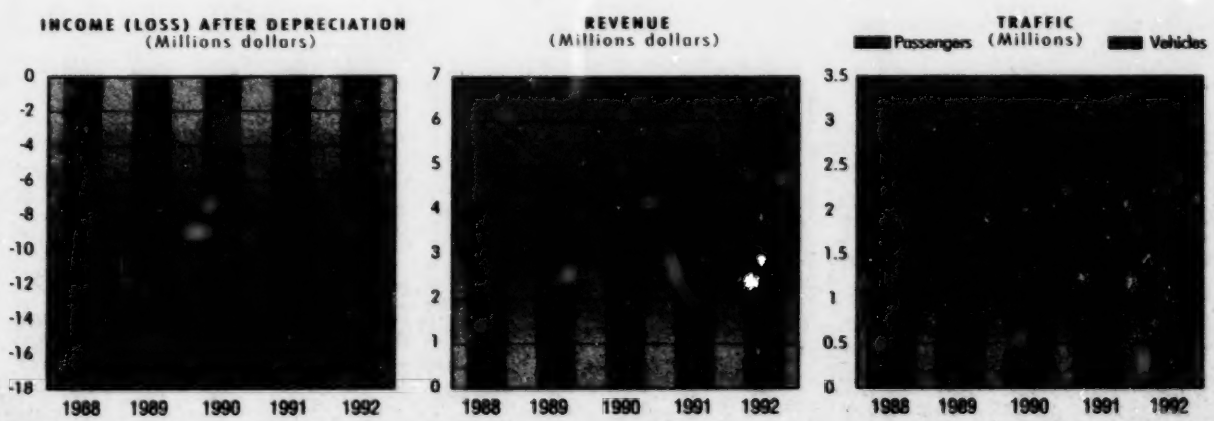
Part of the Gabriola Island crew



Annual vehicle volumes range from as low as 42,000 at Cortes Island to as high as 390,000 at Quadra Island. Traffic for all seven routes in the area was 3.1 million passengers and 1.3 million vehicles over the year. The deficit in the area increased by 3.7% in 1991-92, to $16.9 million from $16.3 million.

These islands are generally rural in nature, often lacking many of the amenities that urban British Columbians take for granted. As a result, the Ferry System has to be responsive to the needs of these communities, in order to keep them connected to the Province's economy and society.

An interesting facet of this role is the provision of emergency sailings. During 1991-92, the Corporation provided 123 emergency runs for medical reasons, and nine for the emergency transportation of B.C. Hydro vehicles in response to power outages in this area. An unscheduled run was even provided to facilitate a gathering of native elders on Cormorant Island, served from Port McNeill.



North Coast Service Area

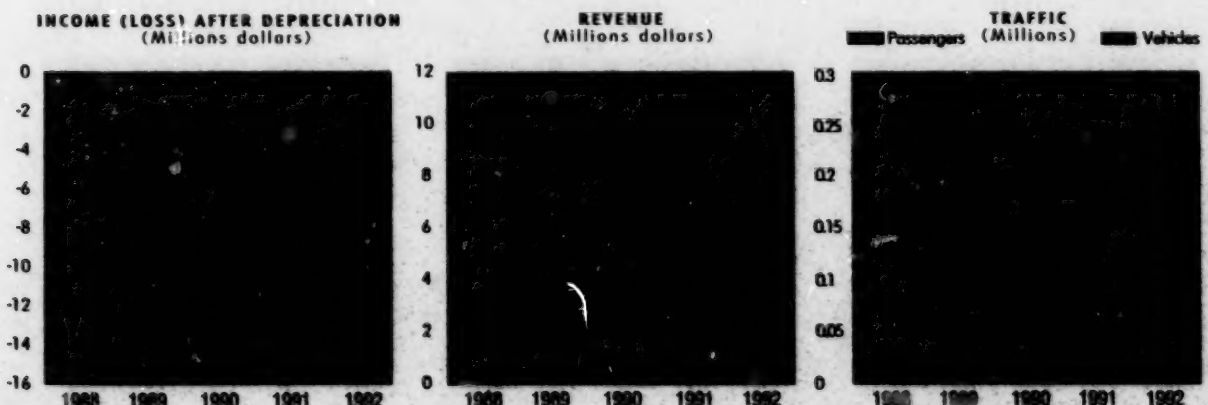
The tourist-oriented services offered on the Inside Passage continue to be heavily utilized throughout the summer months. In fact, Queen of the North is for all practical purposes running at capacity from late June to early September. For this reason, reservations are offered on this service and users are encouraged to reserve months ahead for the highly desirable summer season.

The service to the Queen Charlotte Islands has a substantial tourism component, associated with the unspoiled environment of the archipelago. However, the service is also the highway for transporting goods to and from the islands, and a lifeline for the local economy.

On the Inside Passage service

A significant issue solved this year was the transportation of dangerous goods. Such goods are incompatible with the safe transportation of passengers and so are subject to special handling restrictions. The Board of Directors visited Prince Rupert in September 1991 and at that time heard submissions from local interests regarding the difficulties of transporting such common dangerous goods as paint, solvents and cleaning agents. As a result, the Corporation now supports the scheduled transportation of such goods using a private-sector barge.

In the area as a whole, traffic increased during the year, by 5.4% in passengers and by 6.2 % in vehicles. However, Inside Passage traffic declined slightly. The deficit incurred by this area declined to $11.7 million from $13.0 million, an improvement of 10.4 %.

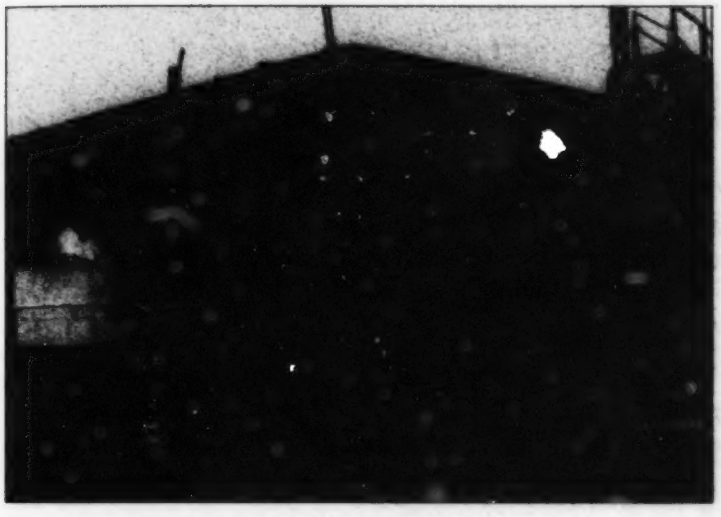


Traffic History

YEAR ENDED MARCH 31, 1991

	PASSENGERS	VEHICLES
1961	692,000	221,000
1962	2,040,000	697,000
1963	2,665,000	895,000
1964	3,180,000	1,034,000
1965	3,300,000	1,185,000
1966	4,000,000	1,333,000
1967	4,477,000	1,516,000
1968	4,361,000	1,530,000
1969	4,774,000	1,733,000
1970	5,671,000	2,102,000
1971	5,963,511	2,228,412
1972	6,771,837	2,552,505
1973	7,629,385	2,824,964
1974	8,538,297	3,169,582
1975	9,512,501	3,558,234
1976	9,912,738	3,760,099
1977	8,383,502	3,044,167
1978	9,018,976	3,258,017
1979	10,399,203	3,758,628
1980	11,423,405	4,161,302
1981	12,512,898	4,625,917
1982	12,763,664	4,712,951
1983	12,275,466	4,462,731
1984	12,397,905	4,482,707
1985	11,912,943	4,460,069
1986	13,497,102	5,050,165
1987	18,235,197	6,525,684
1988	17,014,098	6,490,918
1989	17,879,117	6,884,784
1990	19,228,592	7,499,213
1991	19,775,217	7,707,470
1992	20,517,794	7,956,337
TO March 31, 1992	310,823,348	115,420,856

Management Report



Assembling the S-class ferry hull in Esquimalt

The financial statements of the British Columbia Ferry Corporation have been prepared by management in accordance with accounting principles which are appropriate for the Corporation, have been consistently applied and are generally accepted in Canada. However, a precise determination of many assets and liabilities is dependent upon future events and consequently, the preparation of periodic financial statements necessarily involves the use of management's judgement in establishing the estimates and approximations used in the financial statements. These financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized in the notes to the financial statements. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

Management depends upon a system of internal controls to provide reasonable assurance, on a cost-effective basis, that the financial information used in preparing the financial statements is reliable. The system of internal controls is monitored by internal auditors and the Corporation's external auditors also independently perform such tests of the system of internal controls as they consider necessary for the purpose of expressing their opinion on the financial statements. The Audit Committee, which is comprised of directors who are not employees, meets regularly with management, the internal auditors and the external auditors to satisfy themselves that the Corporation's system of internal controls is functioning correctly.

Management is responsible for all of the information in this Annual Report, which has been reviewed by the Audit Committee and approved by the Board of Directors.

F.A. Rhodes
President and Chief Executive Officer

G.A. Brown
Assistant General Manager
Finance

Auditors' Report

To the Lieutenant-Governor in Council
Province of British Columbia

We have audited the balance sheet of British Columbia Ferry Corporation as at March 31, 1992 and the statements of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1992 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Ernst + Young

Chartered Accountants

Victoria, Canada
May 15, 1992

Balance Sheet

AT MARCH 31, 1992

(expressed in thousands)

ASSETS	1992	1991
ASSETS IN SERVICE (Note 3)	$346,281	$225,674
ASSETS UNDER CONSTRUCTION (Note 4)	171,327	92,997
CURRENT ASSETS (Note 5)	30,912	61,340
RESERVED FUNDS (Note 6)	8,433	8,697
DEBENTURE (Note 7)	36,856	37,943
	$593,809	$426,651
LIABILITIES		
LONG TERM DEBT (Note 8)	$157,593	$ 10,753
OBLIGATIONS UNDER CAPITAL LEASES (Note 9)	75,341	78,323
CAPITAL SUBSIDY (Note 10)	128,546	109,152
CURRENT LIABILITIES (Note 11)	69,662	60,219
ACCRUED SICK LEAVE LIABILITY (Note 12)	5,339	5,642
	436,481	264,089
SHAREHOLDER'S EQUITY		
SHARE CAPITAL (Note 13)	6,851	6,851
CONTRIBUTED SURPLUS	250,401	250,401
DEFICIT	(99,924)	(94,690)
	157,328	162,562
	$593,809	$426,651

ON BEHALF OF THE BOARD: akatay DIRECTOR Kenneth Gill DIRECTOR

Statement of Operations and Deficit

YEAR ENDED MARCH 31, 1992

(expressed in thousands)

	1992	1991
OPERATING REVENUES		
Tolls	$ 204,309	$ 186,335
Catering and other income	46,592	44,084
Operating subsidy (Note 2)	28,147	13,104
	279,048	243,523
OPERATING EXPENSES		
Salaries, wages and benefits	164,306	146,659
Fuel	28,161	31,270
Contracted services	27,870	26,589
Cost of food and goods sold	17,871	16,776
Materials and supplies	15,981	15,139
Depreciation and amortization	12,852	10,698
Administration	7,092	6,211
Professional services	7,036	3,398
	281,169	256,740
EXCESS OF OPERATING EXPENSES OVER OPERATING REVENUES	(2,121)	(13,217)
Interest income	5,743	18,312
Interest on long term obligations	(8,856)	(9,128)
Net financing income (expense)	(3,113)	9,184
EXCESS OF EXPENSES OVER REVENUES FOR THE YEAR	(5,234)	(4,033)
DEFICIT AT BEGINNING OF YEAR	(94,690)	(90,657)
DEFICIT AT END OF YEAR	$ (99,924)	$ (94,690)

Statement of Changes in Financial Position

YEAR ENDED MARCH 31, 1992

	(expressed in thousands) 1992	1991
OPERATING ACTIVITIES		
Excess of expenses over revenues for the year	$ (5,234)	$ (4,033)
Depreciation, amortization and other non-cash charges	13,250	11,325
Net cash generated from operating working capital	11,818	13,897
	19,834	21,189
INVESTING ACTIVITIES		
Fixed asset additions	(217,767)	(101,286)
Fixed asset additions financed from current liabilities	(1,589)	16,726
Proceeds from disposals of assets	495	-
	(218,861)	(84,560)
FINANCING ACTIVITIES		
Proceeds from long term debt issues	150,129	-
Capital subsidy (Note 2)	22,853	35,346
Transfers from reserved funds	6,003	94,273
Transfers to reserved funds	(1,705)	(42,600)
Payments received on debenture	1,062	980
Long term debt repayment	(5,700)	(5,700)
Capital lease repayments	(1,917)	(966)
	170,725	81,333
INCREASE (DECREASE) IN CASH	(28,302)	17,962
CASH AT BEGINNING OF YEAR	44,033	26,071
CASH AT END OF YEAR	$ 15,731	$ 44,033

In this statement cash includes only cash and short-term investments available for day-to-day operations and does not include Reserved Funds.

Notes to Financial Statements

YEAR ENDED MARCH 31, 1992

(TABULAR AMOUNTS IN THOUSANDS)

1. SIGNIFICANT ACCOUNTING POLICIES

The Corporation was incorporated under the Ferry Corporation Act on June 30, 1976 and commenced operations on January 1, 1977. The shares of the Corporation are held by the Minister of Finance as representative of Her Majesty the Queen in right of the Province of British Columbia.

As required in Section 8(7) of the Ferry Corporation Act, the financial statements of the Corporation are prepared in accordance with generally accepted accounting principles. Significant accounting policies adopted in the preparation of these financial statements are as follows:

Inventories -

Inventories which consist of materials and supplies, catering stores, and fuel are valued at the lower of weighted average cost and current replacement cost.

Fixed assets -

Certain ships, berths, buildings and equipment were transferred from the Province in prior years. These assets were recorded at estimated depreciated replacement value at the dates of acquisition. Included in these values are three ships under charter by the Province until 1994 which were subchartered to the Corporation for the same period at an annual cost of $1 each. The Corporation may request the Province, at its expense, to exercise its option to purchase the ships in 1994 and transfer title to the Corporation under the terms of the subcharter agreement.

The costs of all other major replacements, additions, extensions and improvements, including direct overhead and interest costs are capitalized in the Assets under Construction accounts and transferred to the Assets in Service account when placed into service. The costs of maintenance, repairs, refit and minor renewals or replacements are expensed as incurred.

Depreciation -

Fixed assets, including assets recorded under capital leases, are depreciated using the straight line method based upon the useful lives of the assets as determined by the Corporation. Useful lives are as follows: ships - 40 years, berths - 10-30 years, buildings - 20 years, equipment - 5-12 years.

Amortization of long term debt discount and issue costs -

Long term debt discount is amortized using the compound interest method over the term of the debt. Issue costs for long term debt and capital leases are amortized on a straight-line basis over the term of the debt or lease.

Provincial Government Subsidy -

The annual subsidy received from the Province of British Columbia is applied firstly to cover any annual operating loss excluding depreciation plus net financing expense and long term debt and capital lease repayments, and applied secondly to a capital subsidy account. This accounting treatment reflects the government's stated intention that capital maintenance and expansion be financed from the annual subsidy. The capital subsidy is amortized on the same basis as the related fixed assets are depreciated and is netted against depreciation on the Statement of Operations.

Contributed surplus -

Contributed surplus represents the recorded value of certain assets received from the Province of British Columbia in prior years.

Comparative figures -

Certain comparative figures have been reclassified to conform with the presentation adopted for the current year.

2.ANNUAL SUBSIDY

The Corporation received a cash subsidy of $51 Million (1991 - $48.5 Million) from the Province of British Columbia.

Of this amount, $28.1 million (1991 - $13.1 million) has been recorded as operating subsidy and the balance of $22.9 million (1991 - $35.4 million) has been allocated to capital (Note 10).

3. ASSETS IN SERVICE

	1992			1991
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Ships owned	$ 367,529	$ 180,053	$ 187,476	$ 93,640
Ships under capital lease	131,054	61,533	69,521	69,097
Berths, buildings and equipment	208,612	133,273	75,339	56,338
Land	13,945	-	13,945	6,599
	$ 721,140	$ 374,859	$ 346,281	$ 225,674

Notes to Financial Statements

4. ASSETS UNDER CONSTRUCTION

In 1989, the Corporation began a major capital expansion program. A summary of transactions during the year follows:

	Balance beginning of year	Costs incurred in the year	Assets placed in service	Balance end of year
Major vessels -				
Two major vessels, of approximately 470 car capacity, are under construction. Planned delivery date for the first vessel is Spring 1993, with the second vessel to follow a year later.	$23,618	$99,785	-	$123,403
The Queen of New Westminster was lifted and re-engined during the year, increasing its capacity from 192 cars to 286 cars.	20,395	31,485	$51,880	-
Minor vessels -				
Construction of the Queen of Capilano was completed in the year. Its sister ship, the Queen of Cumberland was completed in April 1992.	27,784	27,303	26,852	28,235
Renovations to the Queen of Chilliwack, were completed in the year.	11,106	10,288	21,394	-
Terminal redevelopment -				
Tsawwassen - The terminal area was expanded by 8 hectares, a new toll booth plaza was constructed and improvements were made to berths and transfer decks. Work continues on improving passenger services and ticketing facilities.	7,228	21,478	23,641	5,065
Swartz Bay - A new parking area on the west side of the terminal was completed and improvements were made to berths and transfer decks. Work continues on a new passenger terminal building and improvements to marine structures.	698	15,856	1,930	14,624
	90,829	206,195	$125,697	$171,327

	Costs Written-Off
Horseshoe Bay - Work on this terminal was suspended in 1991 while the Corporation re-evaluated the location's requirements. Consequently, design and engineering costs incurred to date were expensed as professional services in the year.	$2,464

	2,168	296	
	$92,997	$206,491	

Interest costs of $4.9 million (1991 - nil) were capitalized as cost of construction in the year.

Commitments at March 31, 1992 totalled $191.8 million.

5.CURRENT ASSETS

	1992	1991
Cash and short-term investments	$15,731	$44,033
Accounts receivable	5,477	5,485
Inventories	9,704	11,822
	$30,912	$61,340

Notes to Financial Statements

6.RESERVED FUNDS

Funds designated for specific purposes are segregated by the Corporation.

	1992	1991
Funds designated to meet accrued sick leave liabilities (Note 12)	$5,339	$5,642
Long term disability fund	3,094	3,055
	$ 8,433	$ 8,697

7. DEBENTURE

The debenture from the Province of British Columbia bears interest at 8.18% per annum and matures in December 2006.

8.LONG TERM DEBT

	1992	1991
Sinking fund bonds, weighted average interest rate of 9.89% maturing at various dates from 1998 to 2012, amortized over 30 years, repayable by annual sinking fund payments of $1.0 million	$110,000	-
Sinking fund promissory note, effective interest rate of 12.44%, due September 9, 2003, repayable by annual sinking fund payments of $.3 million	14,758	$14,758
Promissory notes repaid in the year	-	5,700
Short-term loans, weighted average interest rate of 7.13%, to be refinanced subsequent to year end by issue of sinking fund bonds	40,130	-
	164,888	20,458
Less: sinking funds	4,092	9,031
current sinking fund payments	1,293	322
deferred charges	1,910	352
	$157,593	$10,753

Long term debt is due to the Province of British Columbia.

Sinking fund payments of $1.3 million are due in 1993. Payments of $1.6 million are due in each of the four subsequent years.

9. OBLIGATIONS UNDER CAPITAL LEASES

The Corporation has obligations under capital leases for the M.V. "Queen of Oak Bay", M.V. "Queen of Surrey", M.V. "Quinsam" and other equipment.

Total future minimum lease payments, net of sinking fund requirements, for fiscal years ending in:

1993	$ 9,218
1994	9,218
1995	9,218
1996	10,049
1997	10,367
1998 and subsequent	107,728
	155,798
Less: interest at implicit rates between 8.14% and 10.64%	71,332
Present value of net minimum capital lease payments	84,466
Less: sinking fund	6,767
current portion	2,095
deferred charges	263
	$ 75,341

Notes to Financial Statements

10. CAPITAL SUBSIDY

	1992	1991
Capital subsidy at beginning of year	$109,152	$ 76,096
Provincial Government subsidy, capital portion (Note 2)	22,853	35,346
	132,005	111,442
Annual amortization	3,459	2,290
Capital subsidy at end of year	$128,546	$109,152

11. CURRENT LIABILITIES

	1992	1991
Accounts payable and accrued liabilities	$56,912	$50,632
Deferred revenue	9,362	7,348
Current portion of long-term obligations	3,388	2,239
	$69,662	$60,219

12. ACCRUED SICK LEAVE LIABILITY

In 1978 the Corporation introduced short-term illness and injury and long-term disability plans and as of that date all employees ceased accruing sick leave credits. In the event of illness the accumulated sick time may be withdrawn. On retirement, any balance remaining is payable at 50% of accredited time.

An actuarial valuation by Leong & Associates in 1991 established the value at March 31, 1991 and the projected value for 1992 and the subsequent two years. This projected value has been reflected in the financial statements.

Funds have been designated to meet the accrued sick leave liability (see Note 6).

13. SHARE CAPITAL

	1992	1991
Authorized: 1,000,000 shares without par value with a maximum consideration of $100 million		
Issued: 68,512 shares	$6,851	$6,851

14.RELATED PARTY TRANSACTIONS

In addition to the annual subsidy described in Note 2, the Provincial Government pays $4.8 million for annual leases of three ships which are sub-leased from the Province at an annual cost of $1 each. These payments are attributed to the Corporation in the annual estimates of the Province but are not recorded by the Corporation.

The Corporation utilizes Crown land for terminals and highway access without the payment of rent. In 1991 the Corporation initiated a program of payments to municipalities in lieu of property taxes for major terminals located within municipal boundaries.

The Corporation engages in transactions with other government agencies, departments and Crown Corporations, notably B.C. Hydro and Power Authority and B.C. Systems Corporation, on normal commercial terms.

The Minister of Finance, in his capacity as the Corporation's fiscal agent, arranges short and long term financing at the Corporation's request. The Corporation paid fees totalling $1.0 million in the year for these fiscal agent services.

15.CONTINGENT LIABILITIES

The Corporation in conducting its usual business activities, is involved in various legal proceedings and litigation, the outcome of which is indeterminable. It is the Corporation's policy to carry adequate insurance to minimize the risk associated with such matters. Management is of the opinion that the aggregate liability, if any, of these proceedings and litigation would not be material to the Corporation.

Board of Directors

BOARD OF DIRECTORS
[as at March 31, 1992]

R.W. (Bill) Long, Chair of the Board
Robert H. Wright, Vice-Chair
Gary Bannerman
Barbara J. Duggan
Jennifer Inderwick
Harold J. Long*
Joseph Morris
Stephen E. Smith
C.M. (Mack) Stone
Michael D.W. Young*
(*resignation tendered December 3, 1991)

SENIOR MANAGEMENT

Frank Rhodes	President & Chief Executive Officer
Rod Morrison	General Manager and Chief Operating Officer
Pat Morris	Corporate Secretary
Tom Blyth	Senior Projects Manager New Construction Division
Glen Brown	Assistant General Manager, Finance
Bud Harbidge	Assistant General Manager, Human Resources & Administration
Ellis Meads	Assistant General Manager, Terminal Engineering
Charlie Partridge	Assistant General Manager, Operations
Jim Watson	Assistant General Manager, Fleet Engineering

BOARD OF DIRECTORS
[as at June 15, 1992]

Maureen Headley, Chair of the Board
Khushpal (Paul) Gill, Vice-Chair
Gretchen Brewin, MLA
Gillian Chee
Frank Collison
Curtis Eaton
Ash Katey
Caroline Langford
Lorne McRae
Arne Olsen
Maxine Williams

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BANK OF RECORD
Royal Bank of Canada
Victoria, British Columbia

For additional copies of this Annual Report, or for further information, please contact the office of the Corporate Secretary at the Head Office of the Corporation.